

## Message Text

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44

ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 PM-07 INR-10 L-03 NEA-10

NSAE-00 PA-04 RSC-01 PRS-01 SPC-03 USIA-15 TRSE-00

SAJ-01 H-03 NSC-10 SS-20 ACDA-19 IO-14 OMB-01 EB-11

DRC-01 AF-10 /170 W

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R 091456Z NOV 73

FM AMEMBASSY OSLO

TO SECSTATE WASHDC 7372

INFO USMISSION USNATO

DOD

USNMR SHAPE

USCINCEUR

AMEMBASSY STOCKHOLM

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

USMISSION OECD PARIS

USMISSION EC BRUSSELS

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MILITARY ADDRESSEES ALSO FOR POLADS

E.O. 11652: GDS

TAGS: EFIN, ECON, NO, MCAP, NATO

SUBJ: THE NORWEGIAN BUDGET PROPOSALS FOR 1974

REF: OSLO 3740

SUMMARY: NORWAY'S NEW GOVERNMENT INTRODUCED ON NOVEMBER 2  
MINOR CHANGES IN THE BUDGETARY PROPOSALS PRESENTED BY THE  
FORMER KORVALD GOVERNMENT ON OCTOBER 11. THE MOST  
SIGNIFICANT CHANGE IS A 1.2 PERCENT REDUCTION IN PROPOSED  
DEFENSE SPENDING COMPARED TO KORVALD'S BUDGET. THIS WOULD  
RESULT IN A 0.2 PERCENT REDUCTION IN REAL TERMS IN DEFENSE  
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SPENDING. I HAVE EXPRESSED SERIOUS CONCERN TO THE

FINANCE MINISTER ON NOVEMBER 7, AND ON NOVEMBER 9 TO THE CHAIRMAN OF THE FINANCE COMMITTEE IN NORWAY'S PARLIAMENT. BOTH DISCOUNTED THE CUT AS MARGINAL, AND THE LATTER SAID THAT MOST OF IT MERELY INVOLVED POSTPONEMENT OF ALLOCATION OF FUNDS FOR CROTALE MISSILES WHICH WERE UNLIKELY TO BE DELIVERED IN 1974 ANYWAY. NO CUTS IN ARMY PERSONNEL ARE ENVISAGED. END SUMMARY.

2. ON NOVEMBER 2, 1973, PER KLEPPE, THE FINANCE MINISTER IN BRATTEL'S NEW GOVERNMENT, SUBMITTED HIS PROPOSALS FOR CHANGES IN THE BUDGET FOR 1974 SUBMITTED BY THE KORVALD GOVERNMENT ON OCTOBER 11 JUST A FEW DAYS BEFORE KORVALD LEFT OFFICE (SEE OSLO 3825). KLEPPE PROPOSED ALMOST NO CHANGES IN THE TOTAL REVENUE AND SPENDING PROVISIONS OF THE KORVALD FISCAL BUDGET, ONLY RELATIVELY MINOR SHIFTS IN THE KORVALD PROPOSALS FOR TAXES AND RESOURCE ALLOCATION, AND NEGLIGIBLE CHANGES IN THE SOCIAL SECURITY BUDGET.

3. FROM THE U.S. POINT OF VIEW, THE MOST IMPORTANT PROVISION OF THE KLEPPE PROPOSAL IS A REDUCTION OF DOLS 8.2 MILLION (NKR 5.5 - DOLS 1.00) IN THE DOLS 673 MILLION PROPOSED BY THE KORVALD GOVERNMENT FOR DEFENSE SPENDING. WHERE THE KORVALD GOVERNMENT HAD MADE A PROVISION FOR A 1.1 PERCENT INCREASE OVER 1973 IN DEFENSE SPENDING IN REAL TERMS, KLEPPE'S PROPOSALS WOULD MEAN A 0.2 PERCENT REDUCTION IN DEFENSE SPENDING IN REAL TERMS COMPARED TO 1973. THESE PERCENTAGE FIGURES ARE BASED ON AN ALLOWANCE OF 6.5 PERCENT FOR INFLATION WITH RESPECT TO DEFENSE SPENDING. (THIS 6.5 PERCENT FIGURE FOR INFLATION COMPARES, IN TURN, WITH 7-8 PERCENT FORECAST FOR INCREASES IN CONSUMER PRICES.) OF THE DOLS 8.2 MILLION KLEPPE PROPOSED BE PARED FROM THE KORVALD PROPOSAL FOR DEFENSE SPENDING, DOLS 6.4 MILLION WILL COME FROM DEFERRED MILITARY EQUIPMENT AND MAINTENANCE SPENDING. HALF OF THE REMAINING DOLS 1.8 MILLION REDUCTION PROPOSED BY KLEPPE WILL BE ACCOMPLISHED BY DEFERRING ADMINISTRATIVE EXPENSES (MOSTLY MAINTENANCE AND EQUIPMENT) AND HALF BY DEFERRING THE HIRING OF ADDITIONAL CONTRACT PERSONNEL AS PROVIDED IN THE KORVALD BUDGET PROPOSALS.

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4. IN HIS STATEMENT TO THE STORTING (PARLIAMENT), KLEPPE GAVE NO JUSTIFICATION FOR HIS PROPOSED REDUCTION IN DEFENSE SPENDING. HOWEVER, WHEN I SAW HIM ON NOVEMBER 7, HE SAID THAT THE CUT WAS PART OF THE LABOR GOVERNMENT'S EFFORT TO REDUCE SPENDING BY THE MINISTRIES. OTHER MINISTRIES WOULD REDUCE PERSONNEL, BUT DEFENSE HAD OBTAINED PERMISSION TO CUT IN OTHER WAYS. I EXPRESSED DEEP CONCERN ABOUT THE CUT AND ITS EFFECT ON BURDEN

SHARING.

5. IN A SUBSEQUENT CONVERSATION ON NOVEMBER 9 WITH RAGNAR CHRISTIANSEN, WHO IS A FORMER LABOR PARTY FINANCE MINISTER AND IS NOW CHAIRMAN OF THE STORTING FINANCING COMMITTEE, CHRISTIANSEN DISCOUNTED THE CUT IN THE KORVALD DEFENSE BUDGET, ESPECIALLY THE DOLS 6.4 MILLION CUT IN PROPOSED EQUIPMENT AND MAINTENANCE EXPENDITURES. HE TOLD ME THIS MONEY HAD BEEN EARMARKED FOR PURCHASE OF CROTALE MISSILES FOR NORWEGIAN AIRBASE DEFENSE. THE MISSILES WERE UNLIKELY TO BE DELIVERED IN 1974 AND SO PROVISION FOR PAYMENT FOR THEM COULD EASILY BE PUT OFF.

CHRISTIANSEN ALSO SAID THERE WOULD BE NO REDUCTION IN THE SIZE OF NORWAY'S ARMED FORCES. THE PROPOSED BUDGETARY REDUCTIONS WERE, THEREFORE, MARGINAL. THEY HAD NOT BEEN EXPLAINED OR PRESENTED WELL, HOWEVER, AND CHRISTIANSEN THOUGHT THE IMPRESSION THAT DEFENSE SPENDING HAD BEEN SPECIALLY SINGLED OUT WAS NOT ONLY ERRONEOUS BUT DANGEROUS. I AGREED AND POINTED TO OUR CONCERN WITH BURDEN SHARING AND THE JACKSON-NUNN AMENDMENT. (IN ANOTHER COMMENT ON KLEPPE'S PROPOSALS, THE NEW CHAIRMAN OF THE STORTING DEFENSE COMMITTEE, CONSERVATIVE PER HYSING-DAHL, HAS ALSO EXPRESSED CONCERN TO THE PRESS OVER THE PROPOSED CUT IN DEFENSE EXPENDITURE AND THE HOPE THIS DOES NOT SIGNAL A CHANGE OF COURSE IN DEFENSE POLICY BY THE LABOR GOVERNMENT.)

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INFO USMISSION NATO  
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6. KLEPPE'S OVERALL PROPOSALS MAKE NO PROVISION OFR  
REDUCTION OF THE 20 PERCENT VALUE ADDED TAX ON STAPLE  
FOODSTUFFS WHICH HAD BEEN WIDELY SOUGHT. TAXES ON  
LOW AND MIDDLE INCOMES WOULD, HOWEVER, BE REDUCED BUT  
WOULD BE MORE THAN OFFSET BY INCREASED TAXATION ON  
HIGHER INCOMES AND CORPORATIONS, BY ACCELERATING  
CORPORATE TAX PAYMENTS, AND BY ADVANCING THE INTRO-  
DUCTION OF A PROPOSED INCREASE IN GASOLINE TAXES.  
FOREIGN AID TO LIBERATION MOVEMENTS WOULD RISE  
SLIGHTLY AND OTHER AID DECLINE MARGINALLY. (FOREIGN  
MINISTER FRYDENLUND IN A SPEECH TO THE STORTING  
ON NOVEMBER 9 SAID ABOUT NORWEGIAN AID TO LIBERATION  
MOVEMENTS: QTE IT IS EXPECIALLY THE PORTUGUESE  
COLONIAL POLICY IN AFRICA THE GOVERNMENT HAS IN  
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MIND. UNQTE).

7. KLEPPE TOLD ME THAT THE INTENT BEHIND HIS BUDGET  
PROPOSALS WAS TO STIMULATE DOMESTIC CONSUMPTION WHICH  
HAD LAGGED WHILE PRODUCTION OF EXPORT AND INDUSTRIAL  
GOODS HAD RISEN. A RECENT SURVEY HAD ALSO SHOWN A  
SHARP INCREASE IN INVESTMENT PLANS, AND IT WAS DESIRABLE  
TO SLOW THIS TREND. HE BELIEVED HIS PROPOSALS  
WOULD HELP BREAK THE TREND, WOULD HELP REDUCE INFLATION  
(NORWAY IMPORTS MUCH OF ITS CONSUMER GOODS), AND WOULD  
MAKE MORE MANAGEABLE THE DIFFICULT WAGE NEGOTIATIONS  
WHICH WILL TAKE PLACE NEXT SPRING AND WHICH WILL IN-  
VOLVE MOST NORWEGIAN WORKERS.

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